

Transaction Privilege Tax 101

- **Not a true “sales” tax**
- **Some services are taxed**
- **Counties may impose tax as a percentage of the state transaction privilege tax rate**
- **Municipalities impose their own privilege taxes that have different tax bases and different rates**

Transaction Privilege Tax v. Sales Tax: Who Pays?

- **A true sales tax is a tax on the retail sale of goods and services. True sales taxes are paid by purchasers or consumers and are collected by sellers as agents of the taxing authority. Tax is calculated as a percentage of the sales price.**
- **Arizona's transaction privilege tax is a tax on the privilege of engaging in business in the state. The liability for the tax is on the seller/vendor, who may choose to pass the tax on to the purchaser. The tax is levied on the value, gross proceeds or gross income derived from the business.**

Business Classifications

- **The transaction privilege tax is currently levied on 16 business classifications**
- **Examples of classifications**
 - **Retail**
 - **Utilities**
 - **Restaurant (and Bars)**
 - **Prime Contracting**
 - **Transient Lodging (Hotel/Motel)**
 - **Rental of Personal Property**
 - **Telecommunications**
 - **Amusements**

Tax Base

Generally, the tax base under the transaction privilege tax is the gross proceeds of sales or gross income derived from the business. It is presumed that all gross proceeds of sales and gross income derived by a person from business activity classified under a taxable classification comprise the tax base for the business until the contrary is established. (A.R.S. § 42-5023)

- **Gross Proceeds of Sales** is defined as the value proceeding or accruing from the sale of tangible personal property without any deduction on account of the cost of property sold, expense of any kind or losses, but cash discounts allowed and taken on sales are not included as gross income. (A.R.S. § 42-5001.5)
- **Gross Income** is defined as the gross receipts of a taxpayer derived from trade, business, commerce or sales and the value proceeding or accruing from the sale of tangible personal property or service, or both and without any deduction on account of losses. (A.R.S. § 42-5001.4)

- **Statute provides specific activities or transactions that a taxpayer (seller/vendor) may deduct from the gross proceeds of the sales or gross income in determining the tax base prior to calculating the tax.**
- **Each business classification has its own deductions and exemptions. Deductions and exemptions from one classification do not flow through to another classification.**
- **1989 there were 45 deductions or exemptions under the retail classification.**
- **Currently there are 98 deductions or exemptions under the retail classification.**

Examples of Nontaxable Activities and Transactions

- **Professional services**
 - doctors other health care professionals
 - lawyers, engineers, architects, accountants
- **Personal services**
 - dry cleaning
 - hair cuts
 - Nail salons
 - Massage
- **Sales for resale**
- **Sales by nonprofit organizations (§501(c)(3))**
- **Sales to nonprofit hospitals and qualified nonprofit health care organizations**
- **Sales of food for home consumption**
- **Sales of drugs, eyeglasses, contacts, hearing aids**
- **Sales of Machinery & Equipment (M&E) used directly in mining, manufacturing, generation and transmission of electricity**
- **Sales of M&E used in research and development**
- **Sales of Solar energy devices**

Tax Rates

- **The transaction privilege tax rate that applies to the majority of business classifications is 6.6% (5% base rate, .6% education tax and 1% temporary tax)**
- **Transient Lodging (Hotel) is taxed at 6.5%**
- **Non-metal Mining is taxed at 3.125%**
- **Mining severance is taxed at 2.5% of net severance base**
- **Jet fuel is taxed at 3.05 cents per gallon for the 1st 10M gallons**

(The tax rates shown on the Department's tax rate tables and on the TPT returns include the county rates as well)

ARIZONA USE TAX

- Applies to the storage, use or consumption of tangible personal property and utility services in Arizona.
- Applies to purchases from out-of-state vendors or purchases for resale that are subsequently taken out of inventory for own use.
- Measured by the purchase price.
- Does not apply if Arizona transaction privilege tax or another state's sales/use tax has been paid on the purchase of the tangible personal property. If the other state's tax rate is lower than the AZ use tax rate, the purchaser is required to pay the difference.
- Same tax rate as the Retail classification - 6.6%.
- Generally, same deductions and exemptions as the Retail classification.

County Excise Taxes/Special Taxing Districts

- **Counties having a population under 1.5M have the option to impose a voter approved General Excise tax.**
 - **Limited to 10% of state rate**
 - **Collected by DOR**
- **Thirteen counties impose a general excise tax.**
- **No County use tax.**
- **Other County Excise taxes or Special Taxing District taxes allowed.**
 - **transportation tax**
 - **jail tax**
 - **hotel tax**
 - **road tax**
 - **health services tax**
 - **capital projects tax**
 - **judgment tax**
 - **stadium tax**

Model City Tax Code

- **Municipalities determine own privilege tax base under the Model City Tax Code (MCTC).**
- **Municipal Tax Code Commission determines changes to MCTC.**
 - local options
 - model options
- **Municipalities determine own rates.**
 - low of 1%
 - high of 4%
- **Uniform Audit Committee**
 - Coordinates city & state audits
- **State collection system (Program cities)**
 - Coordinates administration, licensing and compliance